

Message Text

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ACTION EB-03

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PASS COMMERCE AND OPIC

E.O. 11652: NA

TAGS: EMIN AS US

SUBJECT: SUCCESSFUL RESOLUTION OF BOUGAINVILLE COPPER
NEGOTIATIONS

1. THE RENEGOTIATION OF THE BOUGAINVILLE COPPER AGREEMENT WILL LEAVE EQUITY UNCHANGED BUT WILL PROVIDE FOR GREATER TAX REVENUE FOR GPNG, ACCORDING TO PRESS REPORTS. THE BIG SURPRISE IN THE AGREEMENT IS THE PROVISION FOR BOUGAINVILLE COPPER LTD. TO INVEST HEAVILY IN A SERIES OF MIDDLE-LEVEL PNG INDUSTRIES WHICH MAY NOT MAKE MUCH MONEY FOR THE INVESTOR BUT SHOULD CREATE A CONSIDERABLE IMPETUS TO VARIOUS LOCAL ECONOMIES AND TO THE STANDARD OF LIVING IN THE AREAS WHERE THE INVESTMENTS ARE MADE. THUS THE GOVERNMENT HAS TAKEN A BOLD IMAGINATIVE STEP IN EFFECTIVELY DISTRIBUTING THE BENEFITS OF THE BOUGAINVILLE COPPER CO. TO ALL PAPUA NEW GUINEANS.

2. DESCRIBED AS QUOTE THE BASIS FOR AGREEMENT UNQUOTE BY CHIEF MINISTER MICHAEL SOMARE, A JOINT STATEMENT WAS ISSUED FRIDAY, OCTOBER 4, BY SOMARE AND CHAIRMAN OF BOUGAINVILLE COPPER LTD., FRANK ESPIE. THE AGREEMENT
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WAS HAMMERED OUT EARLIER IN THE DAY WITH THE CHAIRMAN

OF RTZ, SIR VAL DUNCAN, AND THE CHAIRMAN OF CRA, ROD CARNEGIE. IT LAID TO REST RUMORS GENERATED DURING WEEKS OF DIFFICULT NEGOTIATIONS. IN FACT, THE GNP ANNOUNCED THROUGH ITS SYDNEY OFFICE THAT LEGISLATION WAS TO BE INTRODUCED INTO THE HOUSE OF ASSEMBLY FRIDAY, OCTOBER 4, TO FORCE THE ISSUE. ACCORDING TO THE AUSTRALIAN FINANCIAL REVIEW, A NEWS CONFERENCE SCHEDULED FOR FRIDAY AFTERNOON IN SYDNEY WAS CANCELLED AT THE LAST MOMENT. AND THE LEGISLATION PREPARED BY THE SOMARE GOVERNMENT WAS NEVER INTRODUCED.

3. BOTH THE GPNG AND BCL APPEAR TO BE BIG WINNERS. THE COMPANY IS CLEARLY PLEASED TO RETAIN A MAJOR SHARE OF ITS EARNINGS AND THE GOVERNMENT IS ABLE TO SIGNIFICANTLY INCREASE REVENUE, BENEFIT A WIDE SEGMENT OF THE POPULATION, AND YET STILL MAINTAIN A HIGHLY POSITIVE STANCE TOWARD FOREIGN INVESTMENT.

4. DETAILS ARE STILL UNCLEAR, BUT SEVERAL POINTS HAVE EMERGED: A) THE AGREEMENT WILL APPLY FROM JANUARY OF THIS YEAR WHICH MEANS IT WILL APPLY TO THE COMPANY S RECORD HALF-YEARLY PROFIT TO JUNE 30 OF AUSTRALIAN DOLLAR 118 MILLION, B) A SEPARATE TAX ON EXCESS PROFITS OF APPROXIMATELY 70 PER CENT ABOVE A QUOTE REASONABLE PROFIT UNQUOTE WILL BE IMPLEMENTED, C) TAXATION EXEMPTION TO 1980 WILL BE SCRAPPED, AND D) CREATION OF MIDDLE LEVEL INDUSTRIES WILL BE INITIATED.

5. THE POST COURIER STATED TODAY THAT THE FIGURE RUMORED FOR QUOTE PROFITS ABOVE A REASONABLE RETURN UNQUOTE WAS AUSTRALIAN DOLLAR 85 MILLION. SOME MEMBERS OF THE HOUSE OF ASSEMBLY ARE BOUND TO SEE THIS AS A GIVE-AWAY, BUT THE PACKAGE ECONOMIC DEAL WITH ITS BROAD SOCIAL AND ECONOMIC IMPLICATIONS SHOULD REMOVE MOST OF THE STING FROM THEIR RHETORIC.

6. THE AGREEMENT ALSO INCLUDES AN UNDERSTANDING ON SOCIAL AND ENVIRONMENTAL ISSUES. IT PROVIDES FOR CONTROL OVER THE DEVELOPMENT OF FUTURE MINING PROJECTS ON BOUGAINVILLE AND CONTROL OVER THE SOCIAL AND PHYSICAL

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EFFECTS OF THE MINING OPERATION. THE GOVERNMENT IS COMMITTED TO A FULL-SCALE STUDY OF THE MINE S IMPACT AND A SPECIAL FUND IS TO BE ESTABLISHED, JOINTLY FINANCED BY THE BCL AND GPNG, WHICH WILL PROVIDE FOR REHABILITATION FOR DAMAGE CAUSED BY MINING.

7. FURTHER DETAILS WILL BE RELEASED AS THEY ARE WORKED OUT. IMPLEMENTING LEGISLATION IS NOT EXPECTED TO BE

INTRODUCED INTO THE HOUSE OF ASSEMBLY UNTIL THE END
OF THE YEAR.
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